

RatingsDirect®

Summary:

Hermon Town, Maine; General Obligation

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Credit Profile

Hermon Twn GO

Unenhanced Rating

AA-(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services affirmed its 'AA-' underlying rating (SPUR) on Hermon Town, Maine's general obligation bonds outstanding. The outlook is stable.

The rating reflects our view of the town's:

- Proximity to Bangor, Maine's employment opportunities,
- Sound financial position and historically very strong reserve levels, and
- Low to very low debt burden with a rapid amortization schedule.

The bonds are general obligations of the town of Hermon, payable from ad valorem taxes which, subject to certain procedural requirements under Title 30-A, may be levied without limit as to rate or amount upon all the property within the territorial limits of the town.

Hermon Town serves an estimated population of 5,500 in Penobscot County and is located about eight miles west of Bangor. The town, which has seen above-average population growth for Maine, serves as a suburb for Bangor but also has attracted companies to its business parks in recent years. Income levels in the town are strong, in our opinion, with median household effective buying income at 111% of the national level. Market value has grown by an average annual rate of 2.0% since fiscal 2009 to \$446.0 million in fiscal 2012, or \$80,354 per capita, which we consider very strong.

In our view, the town has managed well financially while maintaining very strong general fund reserves. Property tax revenues (the city's largest tax revenue stream) rose by 4.1%, and excise tax revenues (the second largest) grew by 8.5%, in 2012. Public works expenditures were up slightly due a road overhaul. The town ended fiscal 2012 with a \$208,000 use of reserves net of transfers (approximately 1% of its general fund budget), bringing the available general fund balance to \$3.6 million, or 21.1% of expenditures, which we consider very strong. Management indicates it expects a roughly \$400,000 general fund surplus for fiscal 2013 based on a slight decline in expenditures from the prior year. We understand that the town's fiscal 2014 projections include a modest uptick in revenues and an overall surplus of approximately \$500,000.

The town's management practices are considered "good" under Standard & Poor's financial management assessment (FMA) methodology. An FMA of "good" indicates that practices exist in most areas, although not all may be formalized

or regularly monitored by governance officials.

We consider the town's overall net debt burden to be very low on a per capita basis, at \$791, and low as a percent of market value, at 1.2%. Carrying charges are 2.0%, which we consider low. Debt amortization is rapid, with all debt retired within the next 10 years. Management said that town has no plans to issue additional debt during the next two years.

The town participates in Maine Public Employment program for retirement benefits for teachers. The Maine Department of Education contributed \$843,000 in fiscal 2012 for the employer share. For employees who do not participate in the Maine Public Employees Retirement System, the city offers a deferred compensation plan. The town does not offer other postemployment benefits.

Outlook

The stable outlook reflects our view of Hermon's very strong reserves and low to very low debt burden. We believe the town's current financial position provides it with the flexibility to maintain a sound financial position. We do not expect to change the rating within the next two years.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

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